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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER
8-50594

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 1/1/07 AND ENDING 12/31/07  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Penates Group, Inc.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

6263 N Scottsdale Road, Suite 290

(No. and Street)		
Scottsdale	Arizona	85250
(City)	(State)	(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

John P. O'Brien

(480) 473-3344

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Stark Winter Schenkein &amp; Co., LLP

(Name - if individual, state last, first, middle name)

3600 S Yosemite Street, Suite 600	Denver	Colorado	80237
(Address)	(City)	(State)	

CHECK ONE:

☒ Certified Public Accountant☐ Public Accountant☐ Accountant not resident in United States or any of its possessions.SEC Mail Processing  
Section

PROCESSED

MAR 31 2008

THOMSON  
FINANCIAL

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MAR 06 2008

Washington, DC

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of  
information contained in this form are not required to respond  
unless the form displays a currently valid OMB control number.

## OATH OR AFFIRMATION

I, John P. O'Brien, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Penates Group, Inc., as of December 31, 20 07, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

John P. O'Brien  
Signature  
President  
Title

\_\_\_\_\_  
Notary Public

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

*\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).*

## ACKNOWLEDGMENT

State of California

County of Los Angeles

On March 5, 2008 before me, Sang Pil Park, Notary Public  
(insert name and title of the officer)

personally appeared John P. O'Brien  
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are  
subscribed to the within instrument and acknowledged to me that he/she/they executed the same in  
his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the  
person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing  
paragraph is true and correct.

WITNESS my hand and official seal.

Signature Sang Pil Park (Seal)



## OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document  
and could prevent fraudulent removal and reattachment of this form to another document.

### Description of Attached Document

Title or Type of Document: Oath of Affirmation

Document Date: \_\_\_\_\_ Number of Pages: \_\_\_\_\_

Signer(s) Other Than Named Above: \_\_\_\_\_

### Capacity(ies) Claimed by Signer(s)

Signer's Name: \_\_\_\_\_

- ☐ Individual  
☐ Corporate Officer — Title(s): \_\_\_\_\_  
☐ Partner — ☐ Limited ☐ General  
☐ Attorney in Fact  
☐ Trustee  
☐ Guardian or Conservator  
☐ Other: \_\_\_\_\_

Signer Is Representing: \_\_\_\_\_

RIGHT THUMBPRINT  
OF SIGNER  
Top of thumb here

Signer's Name: \_\_\_\_\_

- ☐ Individual  
☐ Corporate Officer — Title(s): \_\_\_\_\_  
☐ Partner — ☐ Limited ☐ General  
☐ Attorney in Fact  
☐ Trustee  
☐ Guardian or Conservator  
☐ Other: \_\_\_\_\_

Signer Is Representing: \_\_\_\_\_

RIGHT THUMBPRINT  
OF SIGNER  
Top of thumb here

**Penates Group, Inc.**  
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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Penates Group, Inc.

We have audited the accompanying statement of financial condition of Penates Group, Inc., at December 31, 2007, and the related statements of income, stockholder's equity, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Penates Group, Inc., as of December 31, 2007, and the results of its operations, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stark Winter Schenkein & Co., LLP*  
Denver, Colorado  
March 3, 2008

STARK • WINTER • SCHENKEIN & CO., LLP • Certified Public Accountants • Financial Consultants

3600 SOUTH YOSEMITE STREET • SUITE 600 • DENVER, COLORADO 80237  
PHONE: 303.694.6700 • FAX: 303.694.6761 • TOLL FREE: 888.766.3985 • WWW.SWSCPAS.COM  
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**Penates Group, Inc.**  
**Statement of Financial Condition**  
**December 31, 2007**

**ASSETS**

Cash	\$ 83,403
Receivable from clearing organization	23,979
Accrued revenues receivable	5,900
Property and equipment, net	2,252
Prepaid expenses and deposits	<u>14,561</u>
	<u><u>\$ 130,095</u></u>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**LIABILITIES**

Accounts payable and accrued expenses	\$ 5,000
	<u>5,000</u>

**STOCKHOLDER'S EQUITY**

Common stock, no par value, 1,000,000 shares authorized, 25,000 issued and outstanding	25,000
Retained earnings	<u>100,095</u>
	<u>125,095</u>
	<u><u>\$ 130,095</u></u>

The accompanying notes are an integral part of these financial statements.

**Penates Group, Inc.**  
**Statement of Income**  
**For The Year Ended December 31, 2007**

**REVENUES**

Brokerage commissions	\$ 317,937
Interest	<u>3,994</u>
Total revenues	<u>321,931</u>

**EXPENSES**

Employee compensation	31,789
Clearing costs	50,095
Professional fees	44,314
Other expenses	<u>11,284</u>
Total expenses	<u>137,482</u>

<b>NET INCOME</b>	<u><u>\$ 184,449</u></u>
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The accompanying notes are an integral part of these financial statements.

**Penates Group, Inc.**  
**Statement of Stockholder's Equity**  
**For the Year Ended December 31, 2006**

	Common Stock Shares	Common Stock Amount	Retained Earnings	Total Stockholder's Equity
Balance, December 31, 2006	25,000	\$ 25,000	\$ 21,014	\$ 46,014
Distributions to shareholder	-	-	(105,368)	(105,368)
Net income	-	-	184,449	184,449
Balance, December 31, 2007	<u>25,000</u>	<u>\$ 25,000</u>	<u>\$ 100,095</u>	<u>\$ 125,095</u>

The accompanying notes are an integral part of these financial statements.



**Penates Group, Inc.**  
**Statement of Cash Flows**  
**Year Ended December 31, 2007**

**OPERATING ACTIVITIES**

Net income	\$ 184,449
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	238
Changes in:	
Prepaid expenses and deposits	(12,244)
Accounts payable and accrued expenses	1,855
Net cash provided by operating activities	<u>174,298</u>

**INVESTING ACTIVITIES**

Net cash (used in) investing activities

-

**FINANCING ACTIVITIES**

Distributions to shareholder	(105,368)
Net cash (used in) financing activities	<u>(105,368)</u>

**NET INCREASE IN CASH**

68,930

**CASH AT BEGINNING OF YEAR**

20,372

**CASH AT END OF YEAR**

\$ 89,302

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Cash paid for:

Interest	\$ -
Income taxes	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

**PENATES GROUP, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**Note 1 – Nature of Operations and Summary of Significant Accounting Policies**

Penates Group, Inc. (the Company), is an S Corporation, which was formed under the laws of the State of Arizona on August 27, 1997. Business operations began in October 1997, with operating revenue beginning in March 1998. The Company is a licensed broker dealer operating in metropolitan Phoenix, Arizona, registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Regulatory Authority (FINRA.) The Company limits its activity to selling mutual fund investments, annuities, and general securities on a fully-disclosed basis.

The Company operates under the provisions of Paragraph (d)(2)(ii) of Rule 15c3-3 of the Securities and Exchange Commission and, accordingly, is exempt from the remaining provisions of that Rule. Essentially, the requirements of Paragraph (k)(2)(ii) provide that the Company clear all transactions with and for customers on a fully disclosed basis with a clearing broker/dealer and promptly transmit all customer funds and securities to the clearing broker/dealer. The clearing broker/dealer carries all of the accounts of such customers and maintains and preserves all related books and records as are customarily kept by a clearing broker/dealer.

**Cash and Cash Equivalents**

For the purpose of the statement of cash flows, the Company considers all highly liquid assets having a maturity of three months or less to be cash equivalents.

**Securities Available for Sale**

Securities available for sale consist of securities not classified as trading securities or as securities to be held to maturity.

**Securities Transactions**

Proprietary securities transactions, commission revenue and related party expenses are recorded on a trade date basis. Liabilities for trade date basis purchases of securities represent obligations to the Company's clearing broker/dealer for transactions executed but not yet settled.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and

disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

### **Income Taxes**

The Company and its stockholders have elected to be taxed as an S Corporation for income tax purposes. Under such election, the Company is not subject to corporate income taxes. Instead, the stockholders are liable for income taxes on their proportionate shares of the Company's taxable income.

### **Depreciation**

Depreciation is provided on a straight-line basis using estimated useful life of three years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease. Depreciation expense for the year ended December 31, 2007 was \$238.

### **Note 2 – Net Capital Requirements**

The Company is subject to the SEC uniform net capital rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2007, the Company had net capital of \$100,767, which was in excess of its required net capital of \$5,000. The Company's ratio of aggregate indebtedness to net capital was 5% in 2007.

### **Note 3 – Reserve Requirements**

The Company is exempt from Securities and Exchange Commission Rule 15c3-3 under Section (k)(2)(A) and, therefore, is not required to make the periodic computation for determination of reserve requirements and information relating to the possession and control requirements under Rule 15c3-3.

### **Note 4 – Off-Balance-Sheet Risk and Concentration of Credit Risk**

As discussed in Note 1, the Company's customers' securities transactions are introduced on a fully disclosed basis with its clearing broker/dealer. The clearing broker/dealer carries all of the accounts of the customers of the Company and is responsible for execution, collection of and payment of funds and receipts and delivery of securities relative to customer transactions. Off-balance-sheet risk exists with respect to these transactions due to the possibility that customers may be unable to fulfill their contractual commitments, wherein, the clearing broker/dealer may charge any losses it incurs to the Company. The Company seeks to minimize this risk through procedures designed to monitor the credit worthiness of its customers and that customer transactions are executed properly by the clearing broker/dealer.

## **Note 5 – Operating Leases**

The Company leases its Scottsdale office under an operating lease that requires annual payments of \$25,700 and expires September 30, 2010. The commencement date of the lease was October 1, 2005. The lease is guaranteed by the stockholder and president and requires the Company to reimburse the lessor for its portion of real estate taxes and expenses each year. This office lease is part of an expense sharing arrangement with a related party that shares the office space. Rent paid by the Company for the year ended December 31, 2007, was nominal.

**Penates Group, Inc.**  
**Schedule I - Computation Of Net Capital Under Rule 15c3-1**  
**Of The Securities And Exchange Commission**  
**December 31, 2007**

Stockholder's equity per Statement of Financial Condition	\$ 125,095
Less: Total nonallowable assets	(22,713)
Haircut	<u>(1,615)</u>
Net Capital	<u><u>\$ 100,767</u></u>
Aggregate indebtedness - items included in financial statements	<u><u>\$ 5,000</u></u>
Basic net capital requirement	<u><u>\$ 5,000</u></u>
Excess net capital	<u><u>\$ 95,767</u></u>
Ratio aggregate indebtedness to net capital	<u><u>5%</u></u>
Net capital as reported in Company's Part II (unaudited) FOCUS Report as of December 31, 2007:	\$ 108,071
Audit adjustments:	
Haircut	(1,615)
Reclassification of assets as non-allowable	(8,042)
Reduction in accounts payable and accrued expenses	<u>2,353</u>
Net capital as of December 31, 2007	<u><u>\$ 100,767</u></u>

**Penates Group, Inc.**  
**Schedule III - Computation For Determination of Reserve Requirements**  
**and Information Relating to the Possession and Control**  
**Requirements Under Rule 15c3-3**  
**December 31, 2007**

Penates Group, Inc. relies on Section K (2)(ii) of the Securities and Exchange Commission Rule 15c3-3 to exempt them from the provisions of these rules.



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To the Board of Directors of  
Penates Group, Inc.

In planning and performing the audit of the financial statements and supplemental schedule of Penates Group, Inc. (the Company), for the year ended December 31, 2007, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange (SEC), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17-a (5)(g) in the following: making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in the following:

1. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling the responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with

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management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practice and procedures listed in the preceding paragraph.

Because of the inherent limitations in internal control or the practice and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific control component does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purpose in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicates a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2007, to meet the SEC's objectives.

This report is intended solely for the information and use of the members, management, the SEC, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than those specified parties.

*Stark Winter Schenker & Co., LLP*  
Denver, Colorado  
March 3, 2008

**END**